

NPNZ Sector Survey

Key Findings Overview

Natural Products Survey 2014 is the most comprehensive industry survey to have been undertaken since 2008. The natural products sector has experienced considerable growth since then and the survey has been invaluable for quantifying its contribution to New Zealand's economy. It has also provided significant insights into the industry's current and emerging capabilities, and its challenges and opportunities for growth.

Natural Products NZ thanks all survey participants, the Ministry of Business, Innovation and Employment, New Zealand Trade & Enterprise for their support in developing the survey and analysing its results, and Crowe Horwath for conducting the survey and writing the report.

<http://www.naturalproductsnz.org/natural-products-nz-sector-survey-2014/>



Key finding: The natural products industry is making a significant and growing contribution to New Zealand's economy

- The natural products industry makes an estimated \$1.4 billion per annum contribution to New Zealand's economy (up from an estimated \$1 billion five years ago).
- 85% of respondents export, with exports reported to be \$285 million per annum. Strong export growth is projected over the coming three years.
- New Zealand, Australia, China and Hong Kong are key markets for all firms. Smaller firms anticipate growth in more traditional markets, such as US, UK and Europe. Larger firms are focusing on New Zealand, Australian and Asian markets.
- New Zealand represents 50% of the market followed by Australia (16.4%) and the United States (7.4%). Asian markets are small individually but important in aggregate (16.5%).
- The sector is estimated to employ 4,600 people and pay around \$258 million per annum in salaries and wages. Large firms (100 or more employees) account for 52% of employment.
- The majority of respondents anticipate stronger employment growth in the next three years than has occurred in the last three years, expecting to add between one and five jobs over the next three years.
- Respondents provide a wide range of products and services; with health foods, personal care and health and botanical extracts being most prevalent.



Key finding: There is increasing consumer demand worldwide for high quality natural products, so the sector is expected to continue growing

- Respondents are positive about continuing revenue growth over the coming three years.
- The top factors influencing success in key export markets are: strategic planning, product development and operational excellence.
- 84% of respondent manufacturers use at least some New Zealand ingredients in their products. 39% of this group's products comprise more than half local ingredients.
- Consistent supply and quality are seen as the most crucial in choosing New Zealand and imported ingredients.
- New entrants to the export market tend to trade on the New Zealand "Clean and Green" image, which provides a competitive advantage at the entry level. However once the brands are established then integrity, high quality and product safety are the attributes that international customers most value.





Key finding: More R&D and export market support is needed to enable innovative businesses to enter into and grow export markets

- 51% of respondents have introduced new goods and services in the past year, which is well above the New Zealand average of 42%.
- The findings suggest that the natural products sector has higher than average R&D and investment. Innovation is increasingly important for long term success and many in the industry have taken advantage of funding available from Callaghan Innovation in the form of growth, project and student grants.
- Cost and lack of capital are key barriers for small and medium firms. Regulatory issues and a lack of technical expertise were barriers for large firms. Access to technical expertise or research facilities is common across firm size.
- Development costs are a barrier to innovation for small and medium firms. Government regulations and lack of appropriate personnel are innovation barriers for large firms.
- Natural products are classified in the Processed Foods export category. Innovative Foods has shown particularly strong growth (US\$406 m in 2012) in this category. MBIE has identified New Zealand as a strong #3 in the East and South East Asian innovative foods markets and identifies “innovative foods” as one of 11 best opportunities for New Zealand in East and South East Asian markets.
- The natural products industry is well-positioned to capitalise on this growth through products such as dietary and health supplements, and nutraceuticals such as enzogenol, colostrum and food supplements.

Key finding: Export compliance barriers need to be reviewed and removed so as to better enable New Zealand's natural products sector to accelerate growth in offshore markets

- International government regulations and access to raw materials are key barriers to growth for medium and large firms; operating costs and availability of capital are key barriers for small firms. Increased competition is an issue across all firm sizes.
- Respondents identified the following international regulatory and compliance issues as barriers to exporting to destination markets: China's change of regulations, Australia's TGA, and various export markets' certification requirements.
- Respondents suggested the following ideas for addressing New Zealand's regulatory and compliance issues that hamper exporting: pass the NHSP Bill into law, reduce export paperwork requirements, improve access to advice and support for exploring new markets.
- Passing the NH&SP Bill into law as soon as possible will support export growth into major markets by positioning New Zealand as having world-class regulatory, compliance and audit systems.



Key finding: The survey shows that the natural products sector is quality rather than cost driven, and focuses on producing reliable, high quality products that work

- Respondents report that customers have strongly positive perceptions of them across all attributes (i.e. unique/innovative products, product integrity, safety, quality, clean green and cost). Integrity and high quality products scored particularly highly.
- Respondents report that the New Zealand industry has a positive image in international markets across all attributes (i.e. unique/innovative products, product integrity, safety, quality, clean green and cost), although cost scores somewhat less strongly.
- Customers are a significant concern for businesses of all sizes. Small and medium firms are also concerned about economic and environmental factors; small firms are concerned about the cost of running a business.
- Certainty of supply either from New Zealand or overseas is recognised as a critical success factor within the industry, particularly access to raw materials.
- This, along with international government regulations, was also identified as a key barrier to growth, particularly by larger firms. A number of regulatory and compliance issues continue to cause frustration to the industry and it is implied that significant increases in both domestic and export sales could be achieved once these are addressed.





Sample size

- 186 members of the Natural Products Association were asked to complete the survey
- 88 responses were received. These are broken down as follows:
 - Large firms (50 employees and above): 14
 - Medium firms (10 to 49 employees): 24
 - Small firms (up to 9 employees): 42
 - Not indicated: 8
- Results in the turnover, employment and wages/salaries categories also include estimates that have been calculated on behalf of non-responding NPNZ members. These estimates are based on information from a variety of sources. Although every effort has been made to ensure the estimates are as accurate as possible, dollar values in these categories should be treated as an indication only.



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